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FCC CABLE REGULATION IMPACT SURVEY
CHANGES IN CABLE TELEVISION RATES
BETWEEN APRIL 5, 1993 - SEPTEMBER 1, 1993
REPORT AND SUMMARY

93-215

CABLE SERVICES BUREAU, FEDERAL COMMUNICATIONS COMMISSION
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SUMMARY OF FCC CABLE REGULATION IMPACT SURVEY
Changes In Cable Television Rates
Between April 5, 1993-September 1, 1993

Introduction

This survey reports on the first stage of the Federal Communication Commission's enforcement of rate regulation pursuant to the Cable Television Consumer Protection and Competition Act of 1992 (Cable Act of 1992). The Cable Act was passed to ensure that cable operators charge consumers reasonable rates. On April 1, 1993 the FCC adopted rules, effective September 1, 1993, to implement the rate regulation provisions of the Act. The Commission rules were intended to ensure that rates for basic and cable programming services (CPS) were reduced to a reasonable level and that charges for associated equipment and installation were based on actual cost.

The Commission adopted a benchmark approach as its primary method of cable rate regulation. Any cable franchise/system not subject to effective competition whose rate per channel for regulated services was above the benchmark line was required to reduce its rate by the lesser of ten percent or to the benchmark rate.[1] In addition, charges for equipment and installation were to be unbundled and priced on the basis of actual cost.

Between the date of adoption and the September 1, 1993 effective date of the rules, the Commission encouraged cable operators to revise their rate structures to come into compliance with the new rules. As the rules were implemented, there were widespread reports that many consumers were receiving bills reflecting price increases. In order to develop a clear understanding of the rate changes that were taking place, the Commission

[1] Under the benchmark, a franchise/system's rate per channel for regulated services is determined based on the charges for basic and cable programming service tiers, and on the revenues from equipment (converters, remotes, additional outlets, etc.) and installations. The Cable Act of 1992 requires operators to offer a separately available basic tier of service to which subscription is required for access to any other tier of service. The basic service tier includes, at a minimum, the broadcast signals distributed by the cable operator (except for superstations), along with any public, educational and government access channels required by the local franchise authority. Cable programming service includes all video programming not on the basic tier and not charged for on a per channel or per program basis. 47 U.S.C. §543. The rules provide that the restructured rates produce uniform per channel charges for basic and CPS.

initiated this survey of April and September 1993 cable rates on September 17, 1993.[2] The survey covers the ten largest benchmark-regulated systems/franchises of each of the twenty-five largest multiple system operators (MSOs), or about twenty-five percent of all subscribers.[3]

It is important to note that this survey was not a random sample and care should thus be taken in extrapolating the results reported here to the industry overall. The survey provides a snapshot of the changes subscribers saw in their September 1, 1993 bills.

Results

The data received in response to the survey reveal that, on average, regulated revenues received from cable services (adjusted for programming shifted to a la carte offerings) have gone down; programming charges have declined slightly; equipment and installation charges have dropped substantially; and most subscriber benefits were from the reductions in equipment rates.[4] In addition, while two-thirds of customers saw a rate decrease, over 30% received an increase.

The key survey findings are summarized below and in the table attached to this summary:

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[2]See Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992, Order, FCC 93-446 (released September 17, 1993).

[3]The total number of systems/franchises in the sample was 245. KBLCOM reported on five systems/franchises. The total number of subscribers in the systems/franchises surveyed was 14.5 million. The total number of subscribers in the industry is estimated to have been 57 million in 1992. (Source of industry subscriber estimate is National Cable Television Association, Cable Television Developments, at 2-A (June, 1993). The data collected by this survey are available for public inspection in Room 207 of 2033 M St., N.W., Washington, D.C. The data will also be made available in electronic form.

[4]Nine of the twenty-five operators surveyed generally removed channels offered in April as part of CPS tiers and offered them in September both on an individual channel basis (a la carte) and in packages at substantial discounts from the individual channel charges. Three additional operators introduced a la carte offerings to a limited extent in a total of fourteen systems. Although operators assumed these a la carte offerings were unregulated for purposes of responding to this survey, the FCC is reviewing the shifts to a la carte on a case-by-case basis under the requirements of the evasion prohibition of Section 623(h) of the Communications Act, 47 U.S.C. §543(h).

Regulated Revenue

- **The reported average regulated revenue per subscriber, adjusted to include revenue from programming shifted to a la carte offerings, declined by 5.9%, or $1.50 per month, from $25.61 to $24.11.**

- **Although the survey does not provide a valid basis for generalizations about the overall impact of regulation on the cable TV industry, the results reported here are not inconsistent with previous estimates that the nationwide consumer benefits from benchmark regulation could be as much as a billion dollars.**

- **Operators not introducing a la carte offerings reported that 67.6%, or two-thirds, of subscribers received reductions in their regulated bills.[5] On the other hand, 30.5% of subscribers received increases in their regulated bills.** Seven of the non-a la carte operators provided, on a voluntary basis, figures for the average size of the increases and decreases in regulated bills. Increases averaged $1.37 and decreases averaged $3.73.[6]

Basic-Only Service

- **On average basic-only programming charges increased by 2.0% ($0.21).**

- Generally, increases in basic-only programming were caused by increases in the number of channels. **The average rate per channel declined 16.4%, but the average number of channels included in the basic tier increased by 2.8 channels.** The increase in programming charges and in channels is largely attributable to systems where operators collapsed all of their tiers into a single basic tier.

- In some cases the increase is also partly attributable to adjustments permitted

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[5]The three operators that shifted to a la carte offerings on a limited basis were counted as non-a la carte operators. The statistic that two-thirds of subscribers saw a reduction in their regulated bills does not make allowance for the a la carte packages of these operators. This may have affected up to nine percent of subscribers included in the statistic. We were unable to determine whether billings for a la carte services significantly reduced the percentage of subscribers seeing a reduction because this statistic requires access to individual subscriber bills.

[6]These results represent the experience of 38% of surveyed subscribers. Results based on self-selected reporting, however, cannot be given great weight. We observe that four of the seven operators reported decreases in average subscriber bills that were almost twice the average reduction in subscriber bills (adjusted for a la carte).

under the benchmark to raise rates per channel that were lower than average in April.[7]

Basic-only Subscribers

- In 203 systems, the approximately 458,000 basic-only subscribers saw on average a 3% reduction.

- In the remaining 42 systems where all tiers were collapsed into basic, basic-only subscribers experienced large increases in charges. The increases averaged approximately 40%, but affected charges for only approximately twenty-seven thousand out of the 14 million subscribers surveyed.

Cable Programming Services

- **The number of CPS tiers dropped 38.5%, from an average of 1.51 CPS tiers per system to 0.93.** The collapsing of tiers of regulated services had a significant impact on the choices of regulated services available. In April, virtually all subscribers had the choice of taking more than a single basic tier of regulated service. At that time only 3.4% of subscribers chose basic-only service. Basic-only subscribership rose to 13.4% in September, and this is wholly attributable to the elimination of CPS tiers.

- In those systems where operators removed channels offered in April as part of CPS tiers and offered them instead in September on an a la carte basis, subscribers wishing to continue to receive the April CPS channel lineups had to pay additional charges for the a la carte packages.

- **The programming charge for all tiers (regulated tiers and a la carte packages) declined on average by 1.5% ($0.34) and the average number of channels offered increased by 1.8 channels.**

- Substantial numbers of subscribers also take an unregulated premium service such as Home Box Office (HBO). The programming charge for subscribing to all tiers and HBO, after adjustment for a la carte, was virtually unchanged.

Equipment

- **For most subscribers, the amount of savings experienced was determined by the amount of equipment they required.**

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[7]Under the FCC's benchmark rules the charges for all tiers of regulated service must be based on a tier-neutral per-channel rate times the number of channels in each tier.

- A basic-only subscriber with one cable ready TV saw the charge for programming plus equipment increase 2.5% ($0.27).[8] The charge for basic-only with a non-cable ready TV decreased 5.8% ($0.74).

- On all tiers (including a la carte packages), a subscriber with one cable ready TV saw charges decrease 0.5% ($0.13). The charge for all tiers with a non-cable ready TV decreased 6.2% ($1.60).

- On all tiers plus HBO, a subscriber with a cable ready TV saw charges decrease 1.8% ($0.66). The charge for all tiers plus HBO with a non-cable ready TV decreased 3.3% ($1.23).

- As the amount of equipment increased, savings went up rapidly. The charge for all tiers plus HBO with two non-cable ready TVs went down 15.1% ($7.01).

- **The lion's share of the change in charges observed between April and September were in the average charges for remotes and additional outlets: rates for remotes declined nearly 90%, from $2.08 to $0.23 per month, and rates for additional outlets declined 97%, from $4.69 to $0.14 per month.**

- Charges for non-addressable converters decreased 1.5%, from $0.66 to $0.65 per month. This small change conceals the fact that there were large decreases where operators already charged separately for converters. These decreases were netted out by the introduction of unbundled charges by other operators. The monthly rate for addressable converters rose 25.9%, from $1.70 to $2.14. This large change was primarily due to operators introducing unbundled converter charges rather than operators increasing existing charges.

- Charges for installations went down significantly. Charges for prewired installations declined 27.6% ($10.63). Charges for unwired installations declined 8.9% ($4.08).

Organization of the Report

The report is organized into the following sections: (1) background as to the regulations and the methodology of the survey and presentation of its results; (2) the survey

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[8] The increase in the charge for equipment and programming for basic-only on a cable ready TV is due to the introduction of unbundled charges for converters, the increase in the number of operators requiring converters for cable ready TVs, and, in contrast to the charges for all other equipment, the increase in the charge for addressable converters.

results, including analysis of average subscriber bills and the impact of price changes on several different subscriber profiles (i.e., those who subscribe to basic only, basic plus a cable programming service tier, etc.); (3) an analysis of the increased shifting of channels to a la carte; (4) some comments on the limitations of the study; and (5) an assessment of the extent to which the survey suggests that the goals of the Cable Act have been met.

Analysis from Survey on Impact of Cable Regulation
Cable Subscriber Profiles, Programming Charges & Equipment Charges[1]
Percentage Change in Charges Between April and September 1993

Non-Cable Ready TV -- Subscriber Profiles (equipment included only where required by operator)	16 Non-a la carte Operators			9 a la carte Operators			All 25 Operators		
	April 1993	September 1993	% Change	April 1993	September 1993	% Change	April 1993	September 1993	% Change
Basic Service plus 1 Converter & 1 Remote	$12.79	$11.54	-9.8%	$12.86	$13.41	4.3%	$12.81	$12.07	-5.8%
Basic & Cable Programming Service (CPS) plus 1 Converter & 1 Remote	$25.35	$23.55	-7.1%	$27.35	$21.34	-22.0%	$25.92	$22.93	-11.5%
Basic & CPS adjusted for a la carte plus 1 Converter & 1 Remote	$25.35	$23.84	-6.0%	$27.35	$25.53	-6.7%	$25.92	$24.32	-6.2%
Basic, CPS adjusted for a la carte & HBO plus 1 Converter & 1 Remote	$37.01	$35.77	-3.4%	$38.54	$37.31	-3.2%	$37.45	$36.22	-3.3%
Basic & CPS adjusted for a la carte plus 2 Converters, 2 Remotes & 1 A/O	$32.46	$25.05	-22.8%	$34.85	$27.42	-21.3%	$33.14	$25.72	-22.4%
Basic, CPS adjusted for a la carte & HBO plus 2 Convs., 2 Remotes & 1 A/O	$45.85	$38.92	-15.1%	$47.49	$40.25	-15.2%	$46.32	$39.31	-15.1%
Cable Ready TV -- Subscriber Profiles (equipment included only where required by operator)									
Basic Service plus 1 Converter & 1 Remote	$10.86	$10.68	-1.7%	$11.05	$12.46	12.8%	$10.91	$11.18	2.5%
Basic & CPS plus 1 Converter & 1 Remote	$23.25	$22.79	-2.0%	$25.01	$20.39	-18.5%	$23.75	$22.11	-6.9%
Basic & CPS adjusted for a la carte plus 1 Converter & 1 Remote	$23.25	$23.16	-0.4%	$25.01	$24.76	-1.0%	$23.75	$23.62	-0.5%
Basic, CPS adjusted for a la carte & HBO plus 1 Converter & 1 Remote	$36.32	$35.57	-2.1%	$37.30	$36.86	-1.2%	$36.60	$35.94	-1.8%
Basic & CPS adjusted for a la carte plus 2 Converters, 2 Remotes & 1 A/O	$28.25	$23.70	-16.1%	$30.17	$25.90	-14.2%	$28.80	$24.32	-15.6%
Basic, CPS adjusted for a la carte & HBO plus 2 Convs., 2 Remotes & 1 A/O	$44.46	$38.52	-13.4%	$45.03	$39.34	-12.6%	$44.62	$38.76	-13.1%
Programming Charges									
Basic Service Only	$10.76	$10.43	-3.1%	$10.59	$12.16	14.8%	$10.71	$10.92	2.0%
Basic & CPS	$23.02	$22.37	-2.8%	$24.32	$20.00	-17.8%	$23.39	$21.70	-7.2%
Basic & CPS adjusted for a la carte	$23.02	$22.65	-1.6%	$24.32	$24.06	-1.1%	$23.39	$23.05	-1.5%
Basic, CPS adjusted for a la carte & HBO	$34.17	$34.16	-0.0%	$35.33	$36.51	0.5%	$34.50	$34.55	0.1%
Equipment Charges									
Non-Addressable Converters	$0.75	$0.56	-25.3%	$0.42	$0.86	104.8%	$0.66	$0.65	-1.5%
Addressable Converters	$1.82	$2.13	17.0%	$1.40	$2.15	53.6%	$1.70	$2.14	25.9%
Remotes	$1.97	$0.22	-88.8%	$2.33	$0.26	-88.8%	$2.08	$0.23	-88.9%
Additional Outlets	$4.78	$0.02	-99.6%	$4.48	$0.43	-90.4%	$4.69	$0.14	-97.0%
Prewired Installations	$37.40	$28.43	-24.0%	$41.33	$26.54	-35.8%	$38.52	$27.89	-27.6%
Unwired Installations	$44.08	$41.23	-6.5%	$51.11	$43.96	-14.0%	$46.08	$42.00	-8.9%

[1] All calculations are weighted by subscribers. Reading across the table, the columns show the results for the sixteen companies with predominately non a la carte systems/franchises, the nine companies with predominately a la carte systems/franchises and all twenty-five surveyed companies. Reading down the table, the results reflect, non cable ready TV subscriber profiles for different levels of service, cable ready TV subscriber profiles for different levels of service, programming charges for different levels of service and equipment charges.

CHANGES IN CABLE TELEVISION RATES

RESULTS OF THE FCC'S SURVEY OF SEPTEMBER 1, 1993 RATE CHANGES

I. BACKGROUND

The Cable Television Consumer Protection and Competition Act of 1992 requires the Federal Communications Commission to establish rules to ensure that rates for basic and cable programming services are reasonable and that charges for associated equipment are based on actual cost.[9] On April 1, 1993, the FCC adopted rules, effective September 1, 1993, establishing a comprehensive regulatory framework governing cable rates.[10]

Under these rules a benchmark approach is relied upon to establish rates for regulated cable services that would be charged by a similarly situated system facing effective competition. The benchmark approach compares the rate per channel for all regulated services (the sum of revenues from basic and CPS charges, and from charges for equipment that is used to receive these services, and charges for installation and service changes) to a benchmark rate appropriate to the system's characteristics.[11] If a regulated system's rate per channel exceeds the benchmark, the operator must lower the rate to the benchmark or, at most, by the ten percent benchmark competitive differential.[12]

As a transitional mechanism in association with the adoption of the cable rate regulations, the Commission imposed a revenue freeze that permitted system operators to revise their rate structures in accordance with the new rules as long as such changes did not

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[9] Cable Television Consumer Protection and Competition Act of 1992, Communications Act, Section 623, 47 U.S.C. §543.

[10] The effectiveness of the rules was stayed for systems with under 1,000 subscribers pending the adoption of alternative procedures for small systems. See Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992, Report and Order and Further Notice of Proposed Rulemaking, MM Docket 92-266, FCC 93-177 (released May 3, 1993), 58 F.R. 29736 (May 21, 1993), reconsideration in part, FCC 93-428 (released August 27, 1993), further reconsideration pending.

[11] The benchmark formula takes into account total regulated channels, total satellite delivered channels, and total subscribers. Reconsideration of the formula is pending.

[12] Benchmark reductions are based on the rates in effect on September 30, 1992. (The benchmark formula is based on a survey of September 30, 1992 rates.) Systems that raised rates between September 30, 1992 and April 5, 1993 (the effective date of the revenue freeze and the beginning date for rates collected in this survey) may be required to set initial regulated rates at levels of more than ten percent below their April 5, 1993 rates.

result in an increase in the average monthly subscriber bill for regulated services.[13] This freeze covers the period from April 5, 1993 to May 15, 1994.

Operators were encouraged by the FCC to restructure their offerings to comply with the Commission's rate regulations by the September 1, 1993 effective date.[14] After this date operators are required to justify their rates, as being in compliance with the Commission's rules, upon notification from their local franchise authority that the authority has certified to the FCC its willingness and ability to regulate basic rates, or upon notification by the FCC that a valid complaint concerning unreasonable upper tier rates has been filed.

A. SURVEY OF IMPACT OF INITIATION OF RATE REGULATION

Immediately prior to and following the September 1, 1993 effective date, there were widespread reports of cable television system operators implementing rate increases. In order to develop a clear understanding of the rate changes that were taking place, the Commission initiated a survey of the rate changes that had occurred, comparing the rates in effect on April 5, 1993, prior to adoption of the rules and the revenue freeze, with the rates in effect on September 1, 1993, the effective date of the rules.

On September 17, 1993 the FCC released an Order requiring the twenty-five largest MSOs to participate in the FCC rate regulation impact survey to determine what rate changes had occurred between April and September of this year.[15] The survey requested rate

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[13] Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992, Rate Regulation, Order, FCC Rcd 2921 (1993); clarified in 8 FCC Rcd 2917 (1993); extended to November 15, 1993, in Order, FCC 93-304 (released June 15, 1993), 58 F.R. 33560 (published June 18, 1993); extended to February 15, 1994, in Order, FCC 93-266 (released November 10, 1993); extended to May 15, 1994, in Order, FCC 94-33 (released February 8, 1994).

[14] See e.g. Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992, Order, FCC 93-372 (released July 27, 1993), 58 F.R. 41042 (August 2, 1993).

[15] Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992, Order, FCC 93-466 (released September 17, 1993). The cable operators subject to this survey are: Tele-Communications, Inc. (TCI); Time Warner Cable, Continental Cablevision, Inc.; Comcast Corporation; Cablevision Systems Corporation; Cox Cable Communications; Jones Intercable, Inc.; Newhouse Broadcasting Corporation; Cablevision Industries, Inc.; Adelphia Communications; Times Mirror Cable Television; Falcon Cable TV; Viacom Cable; Sammons Communications, Inc.; Century Communications Corporation; Crown Media, Inc., Colony Communications, Inc.; TeleCable Corporation; Scripps Howard Cable; TKR Cable; KBLCOM, Inc,(Houston Industries); Lenfest Group; InterMedia Partners; Prime Cable; and Post-Newsweek Cable, Inc. List ordered from

information for the ten largest systems that each of these operators anticipated would be governed by benchmark regulation. While some operators reserved the option of choosing cost-of-service regulation at a later date, generally few large systems anticipated choosing cost-of-service regulation at this time.[16] Operators were required to return the survey postmarked no later than October 1.

The largest twenty-five operators serve approximately 42 million out of the approximately 57 million cable subscribers, or approximately 75%. The remaining 25% of subscribers are served by many smaller operators. The survey examines a large percentage of cable subscribers (14 million, or approximately 25% of total subscribers), but only a very small percentage of cable operators.

The survey questionnaire requests information on rates for regulated cable services, the average per subscriber regulated revenues for the last billing cycle ending before April 5, and projected average per subscriber regulated revenues based on rates in effect on September 1, 1993. Operators were asked to provide the rate cards and channel lineups in effect on April 5 and September 1, 1993. The survey also asked operators to identify any system that was excluded from the top ten systems because the operator anticipated that it would be governed under the Commission's cost-of-service rules.[17] (See Attachment A for survey form.)

B. DATA PRESENTATION

1. General

This survey collected data to support analysis of the impact of regulation on the average revenue per subscriber and on the prices paid for cable services based on typical subscriber profiles as developed by the FCC staff. Average revenue is a good way of assessing whether subscribers have saved money. The impact of regulation on subscribers is a complex story, however, and an analysis of subscriber profiles reveals that the experience of individual consumers depended upon the cable operator's strategy in responding to regulation, the reduction in rates required under the benchmark, and the mix of services and equipment purchased.

The subscriber profiles described herein capture what we believe are the most important

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largest to smallest number of subscribers. Source of data on number of subscribers is NCTA, Cable Television Developments, at 14-A (June 1993).

[16] The Commission has adopted, as a backstop to its benchmark regulatory scheme, rules that permit cable operators to justify existing rates for regulated services based upon a cost-of-service showing.

[17] Continental identified six excluded systems, and TCI identified two excluded systems.

categories of consumers. The profiles distinguish between subscribers to basic-only service, subscribers to basic and CPS (All Tiers), and subscribers to All Tiers and an unregulated premium channel (e.g. a movie service such as HBO). The profiles including CPS were calculated in two ways: first with no adjustments for programming shifted from CPS to an a la carte package and, second, with adjustments for programming shifted to an a la carte package (adjusted for a la carte).

Equipment has an important impact on subscriber charges and all the above profiles were calculated for both cable ready and non-cable ready TVs. A converter (non-addressable or addressable) was included where the operator indicated that equipment was necessary to receive the profiled level of service. The equipment required varied from system to system, as well as with the level of service and the capability of the TV (cable ready/non-cable ready). A remote was included where the operator indicated that a converter was required. In addition subscribers receiving cable services on multiple TVs were also profiled.

All the results included in the text of this report and in the accompanying tables are weighted by system size. The survey data contains a large range of systems/franchises (2,400 to 354,000 subscribers.) The number of subscribers surveyed per operator also varied greatly (94,000 to 1,700,000 subscribers). Considering these differences we believe that weighing summary statistics by number of subscribers provides a fairer estimate than simple averages of the typical subscriber experience.

2. Treatment of the Shift to A La Carte

The a la carte profiles merit additional explanation. Traditionally cable services have been divided into three categories: a basic service tier, a number of CPS tiers, and premium/pay-per-view channels. The cable industry's response to rate regulation has created a new category that consists of channels that were formerly part of CPS tiers that are now being offered on an individual channel basis and in a la carte packages that offer substantial discounts over the individual channel rates.

Prior to the observation of the practice of moving programming to an a la carte basis, the FCC had determined that packages of a la carte channels should not be subject to regulation provided that the charge for the tier is less than the sum of the individual charges and that the charge for the individual channels represents a realistic service choice for subscribers.[18] The FCC retained the discretion to review shifts from regulated service to a la carte service on a case-by-case basis under the requirements of the evasion prohibition of Section 623(h) of the Communications Act.

Twelve of the twenty-five operators had removed channels offered in April as part of

[18] Report and Order and Further Notice of Proposed Rulemaking, supra fn. 10, paragraph 327.

CPS tiers and were offering them in September both on an individual channel basis and in a la carte packages at substantial discounts from the individual channel charges. Typically, the shift to an a al carte offering involved three to five channels. For example, in restructuring the September channel line-up for its Dalton, GA system, Falcon took five channels (WGN-TV Chicago, TNT, The Family Channel, The Discovery Channel, and The Nashville Network) and offered them separately for $2.00 each, or all five at a discounted package rate of $4.95. In its channel line-up for April, these channels had appeared as part of its tier 2 and tier 3 (CPS) offerings. There were variations to this pattern. Adelphia, for most of its ten systems surveyed, completely eliminated the CPS tiers offered in its April line-ups and now offers the twenty or thirty channels that once comprised these tiers on an a la carte basis, or as an a la carte package.

The shift of channels from CPS to a la carte offerings affected the impact of rate regulation in several ways. First, under the benchmark formula, the maximum permitted rate per channel declines as the number of regulated channels increases. A shift to a la carte reduces the number of regulated channels and increases the benchmark rate to which the operator's rate per channel is compared. Total regulated revenues would decline since the number of regulated channels would be lower, but the higher benchmark rate per channel would lessen the reduction required to comply with the benchmark and the shifted channels would generate unregulated revenues.

Second, under the interim revenue freeze operators are allowed to bring their charges into compliance with the FCC's rules with the restriction that the average regulated subscriber bill may not rise. The FCC anticipated that average regulated revenues would decline in many systems under benchmark regulation. This survey attempted to capture average regulated revenues as a means of assessing the overall impact of rate regulation on consumers and as a test of compliance with the revenue freeze. Unfortunately, operators did not include the (presumed unregulated) revenues from the a la carte packages in the regulated revenues they reported for September. However, we assume that most subscribers were billed for the a la carte packages if they had previously subscribed to the CPS tiers that carried the channels. Thus, the average revenues reported for September by the operators shifting channels from CPS to a la carte substantially understate what subscribers paid that month to receive the channels that were part of their service package in April. Adelphia represents an extreme example of this behavior. Its average regulated channels per system declined from 41.67 channels to 14.45 channels between April and September, a 65% drop in the number of regulated channels.

Where possible the data were adjusted by adding the discounted a la carte package charges to the September results.[19] In summarizing the results by operator, we classified nine operators as being a la carte because a majority of their subscribers were affected by

[19] The charges for a la carte packages were taken from rate cards. Where needed, confirmation of the rates was made by telephone calls with operator-designated officials.

this change in service. Seventy-nine of the 90 surveyed systems owned by these nine operators were restructured in this manner to provide channels on an a la carte basis. This restructuring affected 88% of the subscribers served by the 90 systems. In the tables the results for those operators are shown lightly shaded, while the results for the sixteen remaining operators are shown unshaded.[20]

It should be noted that three operators not classified as a la carte operators did shift channels from cable service tiers to a la carte packages for a minority of their subscribers.[21] In all the tables adjusted for a la carte packaging, the adjustment was made for all a la carte packaging, even for those operators not classified in this report as a la carte operators. Where this adjustment was not possible, separate results are reported for the sixteen operators that did not have a la carte offerings and the nine operators that had a la carte offerings for the majority of their systems surveyed. Primary reliance was placed on the unadjusted results reported for the sixteen non-a la carte operators and adjusted results for all twenty-five reporting operators.

II. Survey Results

A. Analysis of Average Subscriber Bill

The simplest way to assess the impact of cable rate regulation is to compare the average regulated bills subscribers received in April and September 1993. Table 1 shows the reported average regulated revenues (unadjusted for a la carte) divided by the total number of subscribers taking any regulated service. For all twenty-five operators, the average revenue per subscriber declined by \$2.62 (10.2%). (See Table 1.) Unfortunately, as discussed above, the shift of channels from CPS tiers to a la carte packages caused the decline in September regulated bills of nine operators to overstate the actual decline in subscribers' overall bills. One way to overcome this problem is to look only at the non-a la carte operators. This yields an average decline in per subscriber regulated revenues of \$1.96 (7.7%). (See Table 1.) This approach, however, fails to take into account the significant number of subscribers that had programming moved to an a la carte format. An alternative approach is to include the charge for a la carte channels removed from the CPS tiers. This yields an average decline in revenue per subscriber of \$1.50 (5.9%). (See Table 2.) Based on the above analysis, we believe that the impact of regulation has resulted in a net decline in

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[20] Tables 1 - 27 and 31 have been formatted so that the nine cable operators that generally restructured channels on an a la carte basis are lightly shaded. In Tables 28, 29, and 32 all systems/franchises that restructured any channels on a la carte basis are lightly shaded. These later tables include systems/franchises not owned by the nine operators that generally went a la carte.

[21] The three not classified as a la carte operators were: TimeWarner (4 systems and 37% of subscribers), Prime Cable (8 systems and 42% of subscribers) and Scripps Howard (2 systems and 32% of subscribers).

subscriber bills of 5.9% (adjusted for a la carte), or a $1.50 monthly reduction for the systems included in this survey.

1. Average Bill - Regulated Service Plus A La Carte Packages

In Table 2 the reported average subscriber bills are adjusted for a la carte packaging by the addition of the discounted a la carte package charge to the September bills based on the April subscribership to the tiers that formerly carried the a la carte channels. This adjustment allows analysis of all twenty-five reporting MSOs. In April the adjusted average bill ranged from $21.76 to $30.15, with an average of $25.61. The operators towards the bottom of the range were, as expected, least affected by the benchmark. The bottom of the range declined to $21.23. The top of the range, however, declined 13% to $26.37. The average subscriber bill went down $1.50 per month, from $25.61 to $24.11 (5.9%). In April seventeen of the twenty-five operators reported average bills above $25. In September ten operators had average bills above $25, with the a la carte programming included.

In percentage terms, six of the twenty-five reporting operators reduced bills by ten percent or more, resulting in reductions of more than $2.50 per bill. Five operators reduced bills between seven and nine percent, or around $2.00. Seven operators reduced bills between four and five percent, or around $1.00. Five operators made reductions of three percent or less. Two operators increased average bills by 1%.

2. Average Bill - Subscriber Increases and Decreases

Operators supplied data on the percentage of customers that received a reduction in their regulated services bill (unadjusted for a la carte). We are unable to adjust these percentages for the impact of a la carte, so our analysis is limited to the unadjusted percentages of the sixteen non-a la carte operators. For these operators 67.6% of subscribers received reductions in their regulated bills, and 30.5% had increases.

The one generalization that stands out is that the greater the reduction in overall revenue, the higher the reported percentage of subscribers with lower bills. The seven operators that reduced revenue ten percent or more reported that about seventy percent or more of subscribers got lower bills. Operators reducing revenues by four and five percent reported about one-half to three-fourths of subscribers saw reductions. The two operators reducing revenue by two percent or less reported under half of subscribers saw reductions. It appears that where the total reduction the operator made was small, almost all the reductions in subscribers' bills were from decreases in the charges for equipment. Where the overall reduction in the subscribers' bills was large, it was more likely that reductions in charges for programming services contributed to that reduction.

Seven of the non-a la carte operators provided, on a voluntary basis, figures for the average size of the increases and decreases in regulated bills. Increases averaged $1.37 and decreases averaged $3.73. These results represent the experience of 38% of surveyed subscribers. Results based on self-selected reporting, however, cannot be given great weight. We observe that four of the seven operators reported decreases in average subscriber bills that were almost twice the average reduction in subscriber bills (adjusted for a la carte).

B. SUBSCRIBER PROFILE ANALYSIS

As discussed above, we developed subscriber profiles to highlight the impact of rate regulation on subscribers taking differing packages of services. We developed three service related profiles: basic-only, all tiers (basic and CPS) and all tiers plus a premium channel (e.g. a movie service such as HBO). The profiles including CPS were calculated both with and without adjustment for the channels shifted to an a la carte package. To capture the impact of equipment, separate profiles were developed for cable ready and non-cable ready TVs, and for one and two outlet households.[22]

1. Basic Tier Profiles

In April basic-only subscribers were 3.4% of total subscribers for all twenty-five surveyed operators. Scripps Howard had the highest percentage at 13.4%. In September basic-only subscribers had climbed to 13.4% as the result of the collapsing of tiers into basic. Adelphia, Century and Falcon are now above 80% basic-only subscribers.

The changes in the basic-only charge discussed in this section are most directly applicable to the 3.4% of subscribers that took basic-only in April. In 42 systems where operators collapsed all their tiers into a single basic tier, basic-only subscribers experienced large increases in charges for programming. The increases averaged approximately 40% and affected charges for approximately twenty-seven thousand out of the 14 million subscribers surveyed. In the remaining 203 systems, approximately 458,000 basic-only subscribers saw on average a 3% reduction in the charge for the programming component of basic-only service.

Generally, the charges for basic-only service and equipment went down. The results varied, however, depending upon the amount of equipment included in the profile and on the operator's treatment of the basic service tier. Charges for basic-only service on a non-cable ready TV decreased by $0.74, or 5.8%, while charges for basic-only on a cable ready TV

[22] The subscriber with a cable ready TV needs a converter (and a remote) in fewer instances than the subscriber with a non-cable ready TV. Since many of the reductions in subscriber bills are equipment driven, we developed separate profiles for the two groups. The difference in these profiles was greatest for basic-only, since subscribers with a cable ready TV seldom had to rent equipment. The difference was least for the profiles including HBO since operators more often required the subscriber to take an addressable converter regardless of the type of TV. Where we included a converter we also included a remote.

increased \$0.27, or 2.5%. (See Tables 4 and 5.)

Although generally basic-only charges for non-cable ready TVs went down (eighteen operators reduced charges), two held charges at pre-regulation levels, and five increased the charges substantially. The increases were: Falcon, \$6.36 (33%); TeleCable, \$6.25 (75%); Newhouse, \$5.53 (174%); Prime Cable, \$5.32 (59%); and Century, \$4.81 (27%). (See Table 4.)

The increases are generally correlated with operator restructuring channel lineups, eliminating CPS tiers and collapsing channels into basic. Three of the five operators with big basic-only charge increases, Falcon, Century and Prime Cable, generally collapsed all regulated service into a single basic tier. The other two, TeleCable and Newhouse, generally reduced consumer choices to basic and a single CPS tier.

The service and equipment components of the basic-only charge generally went in opposite directions. The charge for service went up an average \$0.21, or 2.0%, but the equipment component went down \$0.95 or 45.2% in households with non-cable ready TVs. For cable ready TVs, the equipment component is very small and went up modestly in dollar terms (\$0.06), but substantially in percentage terms (30%). There is an exception to the generalization that service and equipment went in opposite directions. Of the five cases in which there were substantial increases in the basic-only charge for non-cable ready TV subscribers, in one case equipment directly contributed to the increase. Of TeleCable's \$6.25 increase, \$2.71 was attributable to the initiation of separate equipment charges for remotes and converters.[23]

a. Service Component of Charge for Basic-Only

Thirteen operators increased the program service component of their basic-only charges. In ten of these cases the increase in the service component of basic-only charges is related to the increase in the number of channels on the basic tier. (See Table 6.) Increasing channels, however, did not always increase the service component of the basic-only charge since twenty-one of the twenty-five operators actually added channels to the basic-only service. The average number of channels went up by 2.8 channels. Three operators, all of whom raised basic-only charges, stood out from the average increase in channels: Falcon, Century, and TeleCable added 17.2, 14.7 and 13.1 channels to basic service, respectively. Adelphia and Prime Cable also stand out because they increased both the number of channels and the rate per channel on basic service: Adelphia increased its rate per channel on basic service

[23] TeleCable is unusual in that in April it did not charge for converters and remotes. Thus, the effect of unbundling was to introduce new charges for these equipment items. Further, TeleCable increased the number of channels on the basic tier by an average of 13 channels. This allowed TeleCable to increase the charge for basic-only service substantially.

from $0.73 to $0.77 and added 1.2 channels; Prime Cable increased its rate per channel for basic service from $0.46 to $0.63 and added 4.9 channels.

In three of the thirteen cases the service component of the basic-only charge increased and the number of channels offered in basic-only declined. The increase in the service component appears to be due to the fact that all three operators had been offering the service component of basic-only at very low rates per channel and the benchmark requirement to equalize the rate per channel prices across all tiers of regulated service caused the basic-only tier charge to rise. The reduction in basic service channels limited the increase in the service component charge. Newhouse's basic service tier rate per channel went from $0.11 to $0.55 and it dropped 2.5 channels; Comcast's basic tier rate per channel went from $0.44 to $0.50 and it dropped 2 channels; and Continental's basic service tier rate per channel went from $0.50 to $0.55 and it dropped 0.8 of a channel. In all three cases the September charge for the service component of basic-only remained below average.

Another way to assess how operator responses to rate regulation affected the service component of basic-only is to look at the absolute level of the charge rather than looking at the percentage changes. In April, fifteen of the twenty-five operators charged less than $12 for the service component of basic. In September, twenty-one operators were charging less than $12, twenty-two operators if one includes Viacom at $12.16. On the other hand, the three highest charges for the service component in April were $16.43 (Colony), $15.36 (Crown Media) and $15.18 (Falcon). In September the three highest rates were $24.55 (Falcon), $21.44 (Century), and $15.45 (TKR Cable).

b. Equipment Component of Charge for Basic-Only

The total charge to cable ready TV subscribers for basic-only increased by 2.5% ($0.27). This is almost the same percentage as the service portion of basic-only which was 2%. This reflects the fact that relatively few basic-only cable ready TV subscribers have converters and remotes and thus such subscribers did not share in the reductions in charges for equipment. As a result the weighted average of equipment charges showed only a $0.06 change (increase) for cable ready TV subscribers but a $0.95 decrease for non-cable ready TV subscribers.[24]

In contrast, the total charge for non-cable ready TV subscribers decreased 5.8% ($0.74). The difference in the basic-only profile for cable ready and non-cable ready TV subscribers is due to the fact that cable ready subscribers are generally less likely to be

[24] The increase in equipment charges for basic-only subscribers with cable ready TVs is due primarily to: 1) three operators introducing a requirement for an addressable converter for basic-only subscribers with cable ready TVs; and 2) two operators, with pre-existing requirements that basic-only subscribers with cable ready TVs take an addressable converter, adding an unbundled equipment charge. (See Table 5.)

required to lease a converter and remote to receive basic. The most drastic reductions in charges occurred in the equipment area, with remotes dropping an average of $1.85. (See Table 22.)

c. Rate per Channel Analysis of Basic-Only

The average rate per channel decreased 16.4%, from $0.67 per channel to $0.56 per channel. Twenty operators reported decreases. Nineteen of the decreases were at least 10% ($0.06). Fourteen decreases were at least 20% ($0.12). Seven decreases were at least 30% ($0.21). Two decreases were 40%($0.40) or more. Nineteen of the twenty operators increased the number of channels offered. KBLCOM was the exception, dropping 2.2 channels and decreasing its rate per channel by 14% ($0.09).

In five cases, however, operators increased the average rate per channel. For three of these five operators the increase in the rate per channel alone appeared to account for the increase in their service charges since each decreased the number of basic service channels offered. These operators also had April channel rates significantly below the average. Their September rates were close to, but still below, the average. Newhouse is the extreme example of this with an April basic-only rate per channel of $0.11 and a September rate per channel of $0.55 -- a 400% increase. It appears, therefore, that these increases are adjustments consistent with application of the benchmark methodology.[25] Of the other two operators, one had below average rates in April; the other had above average rates in April. In September, both had above average rates.[26]

As a result of this analysis it appears that increases in some subscribers' bills can be attributed to increases in basic service rates. In several systems, subscribers taking basic only service, even some taking equipment as well, would see increases in their bills. As explained above in the discussion of basic tier profiles, this is partly the result of restructuring of channel lineups. Such increases in subscriber bills, however, would apply to only a relatively small number of subscribers as only 3.4% of all subscribers for the reporting operators took basic only service. In the case of three operators (Comcast, Continental, and Newhouse), where it appears subscribers saw increases simply because their

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[25] Since the benchmark calculation is tier neutral, it tends to increase the rates on the basic tier where previously there was a lower charge for basic service than for CPS. The expectation is that the increases on basic will cause commensurate decreases on the CPS tiers. It should be noted that the calculations decrease the rates for basic where they were above average, as was more often the case.

[26] Adelphia's $0.73 per channel rate in April was $0.06 above the average; it increased the rate to $0.77 per channel--$0.21 above the September average. About 6,200 basic-only subscribers included in the survey were affected. Prime Cable's per channel rate of $0.46 was $0.21 below average in April, but increased to $0.63 in September--$0.07 above the average. Prime Cable had about 3,000 basic-only subscribers in the survey.

rates per channel for basic service were well below average and the benchmark calculation moved the rates up toward the average, 0.09% or 14,400 subscribers were affected.

Subscribers taking more than basic-only service may or may not have seen their bills increase due to increases in basic-only charges. Where an increase in the rate per channel was the source of increase in the basic-only charge, there may have been some offsetting decline in the rate per channel for the CPS tiers. Where channels were added to basic, they generally came from higher regulated tiers and, thus, reduced the number of higher tier channels and their charges. Newhouse is the exception in that it reduced channels and increased the rate per channel on both basic and CPS tiers.

2. All Regulated Tiers - Basic plus Cable Programming Services

The number of CPS tiers dropped 38.5%, from an average of 1.51 CPS tiers per system to 0.93. The collapsing of tiers had a significant impact on the choices of regulated services available. In April, virtually all subscribers had the choice of taking more than a single basic tier of regulated service. The rise in basic-only subscribership from 3.4% in April to 13.4% in September is wholly attributable to the elimination of CPS tiers.

The shift of channels from CPS tiers to purportedly non-regulated a la carte packages prevents direct comparisons between the April and September profiles of all regulated tiers for the operators that adopted the a la carte strategy. Some general results, however, can be obtained by narrowing the focus of the April profiles to just the operators that did not shift to a la carte packaging in September, or to just the rate per channel for the programming component of the charge for all regulated tiers.

Tables 7 and 8 show the profiles for all regulated tiers--basic service plus CPS broken down for cable ready and non-cable ready TV subscribers. Looking at the charges for all regulated tiers in April, non-cable ready TV subscribers were paying an average of $25.92. There were two operators at the low end of charges: Lenfest ($21.59) and Cablevision Systems ($22.99). Sixteen operators charged under $27; twenty operators were under $28. Three charged over $30: Falcon ($35.62), Cablevision Industries ($31.97) and Crown Media ($30.88).

There was not a strong relationship between April charges for all regulated services and the April rate per channel for the programming portion of the charge. Cablevision Systems had a low charge but an above average rate per channel of $0.64; Cablevision Industries had a high charge but a below average rate per channel of $0.54. (Compare Tables 7 and 9.) The exception to this generalization is the case of Falcon, which had the highest charge and the highest rate per channel ($1.03). The average rate per channel was $0.58 for all operators in the survey. Eighteen of the operators fell within plus or minus five cents of the mean. Falcon ($1.03) and Viacom ($0.72) were notably higher, and Newhouse ($0.49) was notably lower.

If we shift our focus to the sixteen non-a la carte operators, then we can compare April and September charges for all regulated tiers. (See Tables 7 and 8.) The average charge for the sixteen operators dropped $1.80 or 7.1%, to $23.55 for a non-cable ready TV. For a cable ready TV, the charge dropped $0.46 or 2%, to $22.79. (As explained previously, subscribers with cable ready TVs had less equipment than subscribers with non-cable ready TVs, and thus they shared less in the large decreases in equipment charges. See fn. 24.) The number of channels in all regulated service increased by an average of 1.8 channels. (See Table 9.) The rate per channel for the programming portion of the charge declined from $0.58 to $0.54, a drop of 6.9%. Thirteen of the sixteen are within five cents of the average rate per channel. Viacom ($0.63) and Prime Cable ($0.61) were the highest, and TeleCable ($0.47) was lowest. Viacom and TeleCable had the highest percentage reductions in their rate per channel for the programming portion of all regulated services: 13% and 20%, respectively.

Four of the sixteen non-a la carte operators reported increases in the programming portion of the charge for all regulated tiers. Lenfest, Cox and TCI each raised charges by approximately 3%, or between $0.60 and $0.74 and added a little more than 2.6 channels to their regulated service tiers. Their September charges for the programming component were $21.31, $22.84 and $23.21, respectively. Lenfest is the one operator that increased its charges for all regulated service (for both cable ready and non-cable ready). Lenfest reported that eight of its ten reporting systems were below the benchmark. Continental raised its charge for the programming component by 1% or $0.29, to $23.31 and added about 2.4 channels. Sammons changed its programming charge slightly, from $18.99 to $18.96, and did not change the number of channels offered.

Finally, if we focus solely on the rate per channel for the programming portion of the charge for all regulated services, we can compare the April and September rate per channel of the nine a la carte operators. Four of the a la carte operators increased their rate per channel for the regulated tiers and reduced the number of channels offered: Adelphia went from $0.59 to $0.76 and cut 27.2 channels, Newhouse went from $0.49 to $0.55 and cut 6.9 channels, Century went from $0.62 to $0.65 and cut 2.3 channels, and TKR Cable went from $0.61 to $0.64 and cut 3.9 channels. Four of the a la carte operators cut the rate per channel, but also significantly cut the number of channels. Falcon went down from $1.03 to $0.93, but cut 4.3 channels. Times Mirror reduced its rate per channel from $0.62 to $0.60, but cut 3.6 channels. Cablevision Industries went from $0.54 to $0.47, but cut 4.2 channels. Colony went from $0.61 to $0.56, but cut 4.9 channels. Only one of the a la carte operators cut the rate per channel and added channels. Comcast went from $0.59 to $0.50 and added 1.2 channels. On average the a la carte operators increased their rate per channel by $0.02 (3.4%) while the non-a la carte operators reduced their rate per channel by $0.04 (6.9%).

3. A La Carte Profiles

Because channels were removed from the basic or CPS tiers and offered a la carte, we calculated profile charges including the charges for the a la carte channels. The a la carte adjustment takes into account the fact that many subscribers will have to take the a la carte channels in order to have the same programming in September that they had in April. Overall the a la carte adjustment affected the charges of 12 of the 25 respondents. The results of this adjustment are summarized in Table 10 and 11.

A comparison of the April and September charges for all regulated and a la carte packages shows that subscribers with non-cable ready TVs say charges decline $1.60 (6.2%), from $25.92 to $24.32. Subscribers with cable ready TVs saw charges decline $0.13 (0.5%), from $23.75 to $23.62. Three operators increased charges for non-cable ready TV subscribers and ten operators increased charges for cable ready TV subscribers. (See Tables 10 and 11.) With the a la carte adjustment there is only a small difference in the average change in charges between the a la carte and non-a la carte operators.

For one operator, Century, subscribers taking all regulated services plus the a la carte offerings would see an average increase in their rates of $2.54 as a result of an adjustment adding $3.12 to charges for the a la carte offerings. (See Table 10 or 11.) For Adelphia, the one operator that moved most of its channels except those in the basic tier to a la carte, subscribers will have to pay $13.34 for the a la carte offerings, almost the exact amount necessary to eliminate any savings that might have followed from application of cable rate regulation.

Tables 12 and 13 indicate that there was an overall gain in the average number of channels available in September. The a la carte operators reflected an average channel increase of 1.0 channel, 2.3%, while the non-a la carte operators showed a higher gain of about 2.1 channels, 5.2%. The overall average was a 1.8 channel gain equivalent to 4.4%. This increase in channels would tend to sustain prices on the regulated tiers that would otherwise have come down as a result of moving channels to a la carte.[27]

Thus, in terms of what ratepayers received and paid for before regulation and what they must pay now for the same package of programming, a portion of ratepayers can expect to see no reduction or insignificant reductions in their bills. This applies more so to ratepayers without equipment needs and to those with cable ready sets. The average charge for the programming portion of the all tiers profiles declined only a modest 1.5% ($0.34).

We believe the $1.50 reduction in revenue reported in Table 2, and discussed above in the section Analysis of Average Subscriber Bill, accurately reflects the overall impact of

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[27] TKR Cable and Newhouse both increased the charge for all tiers (adjusted for a la carte) and decreased the channels offered. TKR Cable increased the charge by $0.76 while decreasing channels by 0.31 channels. (Compare Tables 11 and 12.) Newhouse increased the charge by $1.46 while decreasing channels by 0.05 channels. The rates for Basic and CPS (unadjusted for a la carte) for both of these operators reflected decreases, indicating that the increases were a la carte driven.

regulation but not the impact on individual subscribers. For example, the profile in Table 10 (Basic, CPS and A la carte packages - Non-Cable Ready TV) has a computed average reduction per subscriber of $1.60. The profile in Table 11 (Basic, CPS, A la carte packages - Cable ready TV), however, has a computed average reduction of $0.13 per subscriber. These calculations do not include the full benefits that flowed to subscribers taking more than the minimum amount of equipment. The profiles in Tables 14 and 15 show the impact of adding an additional converter, remote, and additional outlet to the Table 10 and 11 profiles. The computed average reductions increase to $7.42 (non-cable ready) and $4.48 (cable ready).

4. All Regulated Service Tiers, A la carte packages, and One Premium Channel

To attain a more complete picture of the effect of regulation on ratepayers, several additional subscriber profiles were used. Tables 16 and 17 included changes in charges for one premium service (HBO). This additional comparison indicates that the rather modest expected decreases in the a la carte adjusted service charges would disappear. While the a la carte adjusted charges indicated a 1.5% decrease for services, a $0.34 savings, the average bill for the customer taking the same services plus HBO reflects a 0.1% increase, about $0.05. Almost entirely as a result of this change, the non-cable ready TV subscriber group saw its expected savings on service and equipment decrease from about $1.60 to $1.23, decreasing the savings to 3.3%. Cable ready TV subscribers adding HBO, on the other hand, saw their savings increase from $0.13 to $0.66, increasing their savings to 1.8%. This was because savings on equipment more than offset the increase in the charge for HBO. This is the first profile for cable ready TV subscribers in which there was a significant benefit from the reduction in equipment charges ($1.41 for an addressable converter and remote). (See Tables 21 and 22.) Cable ready TV subscribers generally only have an addressable converter if they take a premium service.

5. Equipment Profiles

Another set of profiles, in Tables 18 and 19, was composed to further examine the effect of changes in equipment charges. These tables consider the charge for a service and equipment package that includes all regulated tiers, a la carte offerings, and HBO, plus two converters, two remotes, one additional outlet, and any additional outlet fee chargeable for HBO programming. This analysis indicates that all subscribers taking this package could expect to see a reduction in their bills. The non-cable ready subscriber group could expect a decrease of more than $7.01 (15.1%), while the cable ready subscriber group could expect a reduction of about $5.86 (13.1%).

The reductions in this package are driven largely by the considerable reductions in the average prices of remotes and additional outlets. The average price comparisons for these equipment items in Table 22 show remotes being reduced from $2.08 to $0.23, nearly 90%, and additional outlets being reduced from $4.69 to $0.14, a 97.0% reduction.

Non-addressable converters went down 1.5%, from $0.66 to $0.65 per month. This small change conceals the fact that there were large decreases where operators already charged separately for converters. These decreases were netted out by the introduction of unbundled charges by other operators. The monthly rate for addressable converters went up 25.9%, from $1.70 to $2.14. This large change was primarily due to operators introducing unbundled converter charges rather than operators increasing existing charges.

Charges for installations went down significantly. Prewired installations declined 27.6% ($10.63). Unwired installations declined 8.9% ($4.08).

III. A La Carte Strategies

Analysis of the movement of channels to a la carte offerings reveal three distinct strategies for setting initial regulated rates: (1) moving all CPS channels to a la carte; (2) collapsing of CPS tiers into the basic tier and putting several channels into the a la carte format; (3) collapsing tiers or simply eliminating tiers but retaining one CPS tier and putting several channels into the a la carte format.

For all the strategies, the decrease in rate per channel would have been greater if programming had not been moved out of regulation. The movement of channels did not appear to cause a substantial increase in September charges, but it nevertheless appears to have allowed an increase where a decrease in charges might otherwise have been in order under the benchmarks.

A. Strategy 1

Only Adelphia predominantly followed the first strategy. It generally eliminated all CPS programming and moved an average of about 26 channels to the a la carte format. It increased the size of the basic service tier on the average by one channel and at the same time it increased the service portion of the basic service tier charge by about $0.91. At $10.43 for basic-only programming, Adelphia is still below the survey-wide average of $10.92. Also, based on reported results it would appear that Adelphia raised the rate per channel fairly modestly from $0.73 to $0.77.

Based on reported results, it would appear that Adelphia raised the rate per channel from $0.73 to $0.77. With the a la carte strategy, Adelphia's benchmark rate per channel may be somewhere between $1.01 to $1.32 per channel. Absent the a la carte strategy, Adelphia's rate per channel would be somewhere between $0.40 and $0.58 per channel, based on the number of channels--about 40 or 41--and the number of satellite channels offered.

B. Strategy 2

Three operators predominantly followed the second strategy: Century, Falcon, and

TKR Cable all generally eliminated the CPS tiers by moving most channels to the basic tier and putting, respectively, about 5, 6, and 4 channels into the a la carte format. These three companies had the highest basic service charges among those surveyed: $21.44, 24.55, and $15.45 for, respectively Century, Falcon, and TKR Cable. The survey-wide average was $10.92. These operators essentially sustained and increased their basic service charges by increasing the number of channels offered.

Each of these operators had a reduction in the rate per channel charged for basic service. In each case, though, it appears that the decrease in rate per channel would have been greater if programming had not been moved out of regulation. The combined effect of the channel lineup changes largely accounts for the fact that the survey-wide average charge for the service portion of basic service increased by 2.0%.[28]

C. Strategy 3

Cablevision Industries moved about 3 channels to the a la carte format, Colony about 6, Comcast about 4, Newhouse about 7, and Times Mirror about 4. Each of these operators, however, continued to offer a single CPS tier as well. Otherwise there does not appear to be any single pattern that applies to each operator in this group. Comcast actually increased regulated channels at the same time that it established an a la carte format. The other four operators decreased the number of channels in regulated service.

IV. Limitations of Study

The results of this survey do not directly answer the question of what the ultimate impact of rate regulation will be on subscriber rates. All the surveyed systems are anticipated by their operators to be regulated under the Commission's benchmark rules. Virtually all of these systems appear to have restructured their rates by September 1, 1993 in anticipation of rate regulation on that date. However, the rates surveyed may not ultimately be found to be in compliance with the benchmark rules. Operators may have misunderstood or not fully implemented the rules. A final determination will be made for the basic service tier by local franchise authorities upon certification, and for the CPS tier(s) by the FCC upon complaint.

Several other factors suggest that care be used in evaluating the survey results:

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[28] These three operators already had higher than average charges in April for the service portion of basic service. In September this charge increased on the average by $7.00 for Century, by $9.37 for Falcon, and by $1.41 for TKR Cable. The systems not reformatting to a la carte had an average decrease in this charge of $0.33, while the a la carte operators had an average increase of $1.57.